



House of Representatives

General Assembly

File No. 325

January Session, 2007

Substitute House Bill No. 6432

House of Representatives, April 4, 2007

The Committee on Planning and Development reported through REP. FELTMAN of the 6th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING STATE REAL PROPERTY USED BY A FOR-PROFIT ENTITY.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

- 1 Section 1. (NEW) (*Effective October 1, 2007, and applicable to leases or*
2 *lease renewals signed on and after October 1, 2007*) Each lease agreement
3 or lease renewal entered into by the state with a for-profit entity for the
4 lease of personal property or real property owned by the state shall
5 include in its terms provisions providing that the lessee shall pay
6 property taxes to the municipality in which such property is located
7 and that such property shall be assessed in accordance with the
8 provisions of section 12-62a of the general statutes.

This act shall take effect as follows and shall amend the following sections:

| | | |
|-----------|--|-------------|
| Section 1 | <i>October 1, 2007, and applicable to leases or lease renewals signed on and after October 1, 2007</i> | New section |
|-----------|--|-------------|

PD *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note

State Impact:

| Agency Affected | Fund-Effect |
|------------------------------|--------------------|
| Department of Transportation | TF - See Below |
| Department of Transportation | EF - See Below |
| Policy & Mgmt., Off. | GF - See Below |
| Various State Agencies | GF - See Below |

Note: TF=Transportation Fund; EF=Enterprise Fund; GF=General Fund

Municipal Impact:

| Municipalities | Effect | FY 08 \$ | FY 09 \$ |
|------------------------|---------------|-----------------|-----------------|
| Various Municipalities | Revenue Gain | See Below | See Below |

Explanation

Municipalities will experience a net revenue gain by making state property leased by a for-profit entity subject to local property tax. The revenue gain to municipalities is partially offset by a reduction in the payments-in-lieu of taxes (PILOT) for property leased by a for profit entity. Under current law, the state provides a payment in lieu of local property taxes (PILOT) for property owned and used by the State of Connecticut. The payment is equal to a percentage of the amount of taxes that would be paid if the property were not exempt from taxation. The payment percentages are 100% for facilities used as a correctional facility, 100% for any town in which more than 50% of all property in the town is state-owned real property, 65% for the Connecticut Valley Hospital facility, and 45% for all other property. However, if the amount of appropriation is insufficient to fully fund these reimbursement payments, they are reduced on a pro rata basis. Historically, these grant payments have been under funded, resulting in reduced payments, as is the case with the current fiscal year, FY 07, and the funding levels contained in the Governor's Recommended

budget, HB 7077. It is anticipated that there will be no cost savings to the Office of Policy and Management despite a decrease in PILOT reimbursements, because the grant is under funded and any minor savings resulting from this bill only reduces the amount of pro rata reduction necessary, and all other towns receiving a reimbursement will experience minor increases, approaching the statutorily required reimbursement levels.

This bill requires businesses and other for-profit entities to pay property taxes on real and personal property the state owns and leases to them. Anticipating that as new and renewal leases and concessions are negotiated lessees will seek to reduce their rent payments in order to offset the added tax liability which will result in revenue losses to the General Fund, Transportation Fund and the Bradley Enterprise Fund. The revenue loss cannot be determined at this time but could be significant (greater than \$5 million).

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis

sHB 6432

***AN ACT CONCERNING STATE REAL PROPERTY USED BY A
FOR-PROFIT ENTITY.***

SUMMARY:

This bill requires each lease agreement or renewal under which the state leases its property to businesses or other for-profit entities to require them to pay taxes on the property to the town where it is located. By law, the town must assess this property at the same rate it assesses all other taxable property (CGS § 12-64(b)).

EFFECTIVE DATE: October 1, 2007 and applicable to leases and lease renewals signed or after that date.

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable Substitute

Yea 20 Nay 0 (03/19/2007)